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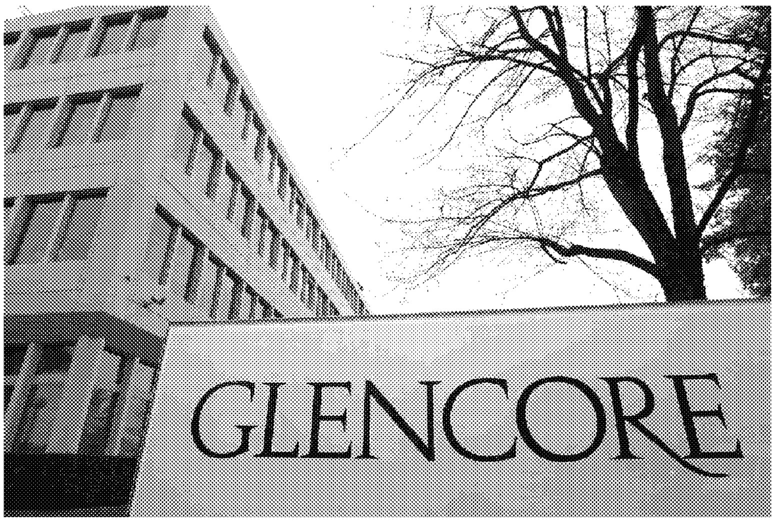
MARKETS

Glencore CDS Costs Soar On Poor Results

Costs have tripled since last September as company's earnings drivers trade at six-year lows



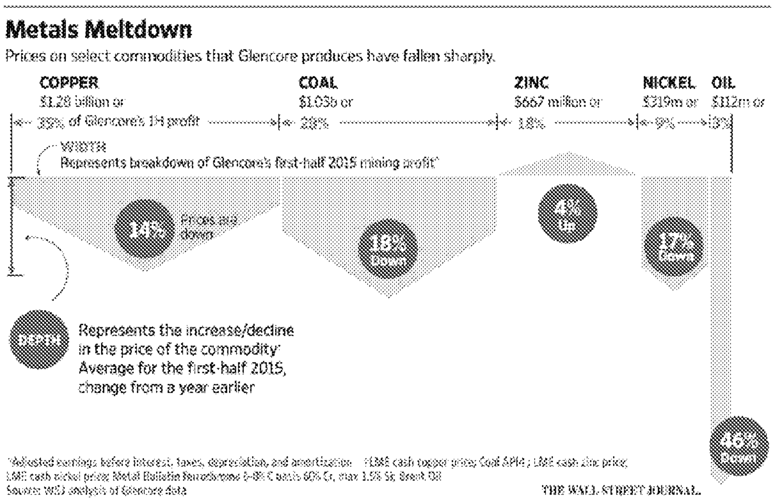
Glencore's headquarters in Baar, Switzerland. The cost of insuring Glencore PLC's bonds has soared after the commodities giant reported a sharp half-year loss on Wednesday. *PHOTO: ASSOCIATED PRESS*

By CHRISTOPHER WHITTALL and LAURENCE FLETCHER

Updated Aug. 20, 2015 1:07 p.m. ET

The price investors must pay to insure against a default on Glencore PLC's debt ballooned after poor results from the commodities giant.

As of Thursday, investors had to pay $330,000 to insure against $10 million of Glencore debt for five years using credit default swaps, or CDS, according to data group Markit. That is more than three times the price of insuring against a default last September. At the end of last week, it cost $294,000.



The Swiss mining firm reported a sharp half-year loss on Wednesday amid a slump in commodity prices and a slowdown in the Chinese economy. Prices for copper and oil, two of Glencore's earnings drivers, are trading at or near six-year lows.

Andrey Kuznetsov, a credit analyst at Hermes Investment Management, which oversees £30 billion ($47 billion) in assets, said the main takeaway from Glencore's earnings call was that the company was caught off guard by the slowdown in China.

"They are involved in metals and trading, so you would expect them to have a better understanding of what's happening in China. China has a big influence on all commodities," Mr. Kuznetsov said. "Investors in metals and mining companies are paying particular attention to what's happening in China."

Glencore shares tumbled almost 10% Wednesday but recovered a bit to trade 2.5% higher on Thursday at 162.85 pence in London. Shares in mining companies on the Stoxx Europe 600 are down 22% over the past three months, while energy stocks are down 14%.

Glencore Chief Financial Officer Steve Kalmin said on Wednesday's earnings call that he will do whatever is within his control to protect Glencore's investment grade credit rating. "Even if we drop one notch, it isn't a high cost to the company," CEO Ivan Glasenberg said on the call. A spokesman from Glencore declined to comment Thursday.

Glencore aims to cut its net debt load to $27 billion by the end of 2016 compared with $29.6 billion as of the end of June through planned cost cuts, noncore asset sales and potentially paring back some trading activity.

Meanwhile, bond investors are demanding a higher yield to compensate them for the risks of holding Glencore debt. The yield on 10-year Glencore bonds was trading at 5.9% Wednesday, Markit said, up by a percentage point from early July. Yields rise as prices fall.

Around $64 million of Glencore 10-year bonds changed hands Wednesday, according to trading platform MarketAxess Holdings Inc., more than five times the daily average this year.

Zoso Davies, a credit strategist at Barclays PLC, said credit default swaps on Glencore are quoted at more-distressed levels than the non-investment-grade German industrial conglomerate ThyssenKrupp AG, which is in the midst of restructuring its business to focus on higher-value products and away from low-value steel products.

Other miners, such as Anglo American PLC, have been grappling with high debt levels. Investors had to pay around $308,000 to insure against $10 million of Anglo debt for five years using credit default swaps on Thursday, up 5% from the end of last week, according to Markit.

One investor that has profited from Glencore's woes is Lansdowne Partners, one of the world's biggest equity hedge funds, which has raised its bet against the miner's shares over the past year. It made a bet on 0.8% of Glencore's stock that shares would fall, according to regulatory filings.

Lansdowne's flagship $10.7 billion Developed Markets fund has its biggest bet on falling prices on the basic-materials sector, according to its latest letter to investors, which was reviewed by The Wall Street Journal. Two of the fund's top five bets on falling stock prices are in the sector, according to the letter.

A spokesman for Lansdowne declined to comment.

Other funds betting against Glencore's shares include Davidson Kempner European Partners LLP, Passport Capital LLC, and Sunrise Partners Limited Partnership, according to regulatory filings.

However, while overall hedge-fund bets against Glencore have risen since March, they are still slightly down from a year ago, according to figures from Markit.

—Alex MacDonald contributed to this article

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Growing Concern

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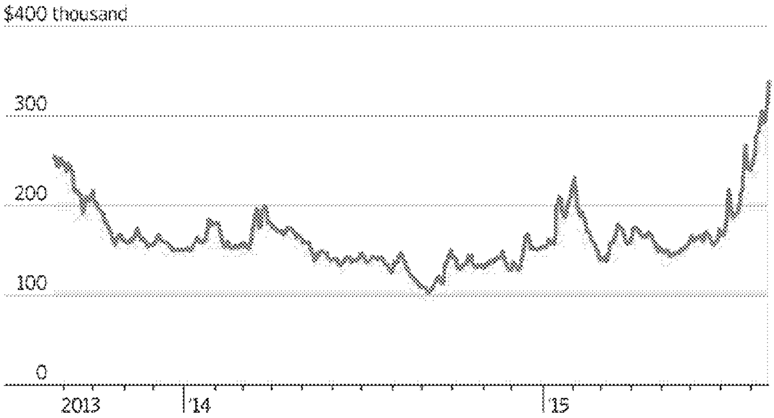

Source: Markit

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